

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2020 AND 2019

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
JUNE 30, 2020 AND 2019

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CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
JUNE 30, 2020 AND 2019

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
Todd Wetherell	Chairman	January 2020
Kellen Ludvigson	Chairman	January 2024
Mike Fox	Treasurer	January 2022
Dan Mott	Secretary	January 2024
Neal Rogge (Resigned March 2020)	Board Member	January 2022
Rick Angell	Board Member	January 2022
David Kastengren (Resigned December 2019)	Board Member	January 2020
Brian Lauck (Resigned May 2020)	Airport Director	May 2022
Randy Sievert	Airport Director	May 2021
Karen Aduddell	Clerk	Indefinite

BURKHARDT & DAWSON

Certified Public Accountants

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Cherokee, IA 51012-1065

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Cherokee Aviation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of Cherokee Aviation Authority as of June 30, 2020 and 2019, and the changes in its cash basis financial position for the years then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, the financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters*Other Information*

The other information, Management's Discussion and Analysis on pages 5 through 8, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2021 on our consideration of Cherokee Aviation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* in considering Cherokee Aviation Authority's internal control over financial reporting and compliance.

BURKHARDT & DAWSON, CPA's

Burkhardt + Dawson, CPA's
Certified Public Accountants

Cherokee, Iowa

May 21, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee Aviation Authority provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Cherokee Aviation Authority is for the fiscal years ended June 30, 2020 and 2019. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

2020 FINANCIAL HIGHLIGHTS

- Operating receipts increased by 13% or approximately \$37,600, from fiscal year 2019 to fiscal year 2020.
- Operating disbursements increased less than 10%, or approximately \$20,900, from fiscal year 2019 to fiscal year 2020.
- The Authority's cash balance decreased 60%, or approximately \$121,500, from June 30, 2019 to June 30, 2020.

USING THIS ANNUAL REPORT

The Authority has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the financial statements. The annual report consists of the financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Authority's financial activities.
- The Statements of Cash Receipts, Disbursements and Changes in Cash Balances present information on the Authority's operating receipts and disbursements, non-operating receipts and disbursements and whether the Authority's cash basis financial position has improved or deteriorated as a result of the years' activities.

- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.
- The Schedule of Expenditures of Federal Awards provides detail on the federal program benefiting the Authority.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statements of Cash Receipts, Disbursements and Changes in Cash Balances

The purpose of the statements is to present the receipts received by the Authority and the disbursements paid by the Authority, both operating and non-operating. The statements also present fiscal snapshots of the cash balance at year end. Over time, readers of the financial statements are able to determine the Authority's cash basis financial position by analyzing the increase and decrease in the Authority's cash balance.

Operating receipts are received for hangar rentals, fuel sales, land rent and tax revenues of the Authority. Operating disbursements are disbursements paid to operate the airport. Non-operating receipts and disbursements are for interest on investments, grant receipts, insurance proceeds, equipment sales, equipment purchases, and grant expenses. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2019, and June 30, 2020, is presented below:

CHANGES IN CASH BALANCES		
	YEAR ENDED JUNE 30,	
	2020	2019
Operating Receipts:		
Tax Revenue	\$ 111,711	\$ 100,316
Hangar Rent	23,697	28,635
Fuel Sales	164,544	136,522
Land Rent	8,500	8,500
Other Income	3,137	32
TOTAL OPERATING RECEIPTS	<u>\$ 311,589</u>	<u>\$ 274,005</u>
Operating Disbursements:		
Fuel Purchased for Resale	\$ 125,281	\$ 107,190
Contract Services Expense	50,274	44,073
Others	52,910	56,278
TOTAL OPERATING DISBURSEMENTS	<u>\$ 228,465</u>	<u>\$ 207,541</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 83,124</u>	<u>\$ 66,464</u>

CHANGES IN CASH BALANCE		
	YEAR ENDED JUNE 30,	
	2020	2019
Non-Operating Receipts (Disbursements):		
Interest on Investments	\$ 1,274	\$ 1,215
Grant Receipts	764,954	92,927
Sale of Equipment	0	176
Interest Expense	(2,376)	(2,657)
Loan Payments	(14,248)	(13,968)
Grant Expenses	(954,272)	(43,258)
Equipment Purchases	0	(3,570)
 NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	 \$ (204,668)	 \$ 30,865
 CHANGE IN CASH BALANCE	 \$ (121,544)	 \$ 97,329
 CASH BALANCE - BEGINNING OF YEAR	 202,571	 105,242
 CASH BALANCE - END OF YEAR	 <u>\$ 81,027</u>	 <u>\$ 202,571</u>
 Cash Basis Fund Balance:		
Restricted for - Capital Reserve Fund	\$ 15,175	\$ 50,424
Unrestricted	65,852	152,147
 TOTAL CASH BASIS FUND BALANCE	 <u>\$ 81,027</u>	 <u>\$ 202,571</u>

In fiscal year 2020, operating receipts increased \$37,600, or approximately 13%, from fiscal year 2019. The increase was primarily a result of an increase in tax revenue and fuel sales in fiscal year 2020. In fiscal year 2020, operating disbursements increased by \$20,900, or less than 10%, from fiscal year 2019. The increase in disbursements was primarily due to an increase in purchase of fuel for resale.

A portion of the Authority's cash balance, \$15,175, or 25%, is restricted for a capital reserve fund as required by the agreement with the City of Cherokee and Cherokee County. The remaining cash balance, \$65,852 or 75%, is unrestricted and can be used to meet the Authority's obligations as they come due. The restricted cash balance decreased from \$50,424 to \$15,175 during the year. The decrease was due to paying for grant project expenses. The unrestricted cash balance decreased \$86,295, or 56%, during the year primarily due to grant and operating expenses.

LONG TERM DEBT

At June 30, 2019, the Authority had long term debt outstanding of \$122,340. At June 30, 2020, the Authority had long term debt outstanding of \$108,091. This loan was required for additional funds for the construction of the 8-unit tee hangar and approach paving. The loan will be repaid in 20 semi-annual payments of principal and interest of \$8,312 over a ten-year period with an interest rate of 2% with a maturity date of March 24, 2027.

ECONOMIC FACTORS

The financial position of the Authority remains very stable. The operating receipts improved from 2019 to 2020 mostly due to the increase in fuel sales and tax revenues. Operating disbursements stayed relatively the same from 2019 to 2020. The capital reserves remain sufficient to cover capital improvement projects not funded with federal or state grants. The current condition of the economy in the state continues to be a concern for Authority officials. Some of the realities that may potentially become challenges for the Authority to meet are:

- Facilities require constant maintenance and upkeep.
- Need to continue increasing Capital Reserves.
- Repayment of the loan through 2027.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Authority anticipates the current fiscal year will be one of transition as it continues to make important decisions regarding the future improvement plans of the Airport.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cherokee Aviation Authority, 1201 South Second Street, Cherokee, Iowa 51012.

FINANCIAL STATEMENTS

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING RECEIPTS:		
Tax Revenue	\$ 111,711	\$ 100,316
Hangar Rent	23,697	28,635
Fuel Sales	164,544	136,522
Land Rent	8,500	8,500
Other Income	3,137	32
TOTAL OPERATING RECEIPTS	<u>\$ 311,589</u>	<u>\$ 274,005</u>
OPERATING DISBURSEMENTS:		
Fuel Purchased for Resale	\$ 125,281	\$ 107,190
Bank Charges and Check Printing	-	120
Audit Fees	6,502	7,246
Miscellaneous Fees	51	230
Dues and Memberships	-	175
Licenses and Permits	9	9
Lease Expense	150	150
Grounds and Buildings Maintenance	3,068	7,735
Fuel Tank Maintenance	620	1,020
Contract Service Expense	50,274	44,073
Fuel Commissions	11,573	9,193
Insurance Expense	14,791	12,819
Fuel for Equipment	1,313	1,949
Equipment Maintenance	5,287	4,028
Utilities - Gas	832	583
Electricity	4,555	5,373
Telephone	2,083	2,077
Water	372	466
Office Supplies	251	-
Miscellaneous Supplies	115	98
Postage	220	155
Other Expense	1,118	2,852
TOTAL OPERATING DISBURSEMENTS	<u>\$ 228,465</u>	<u>\$ 207,541</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 83,124</u>	<u>\$ 66,464</u>

CHEROKEE AVIATION AUTHORITY
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STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
NON-OPERATING RECEIPTS (DISBURSEMENTS):		
Interest on Investments	\$ 1,274	\$ 1,215
Grant Receipts - Parallel Taxiway Design Project	24,464	74,927
Grant Receipts - Parallel Taxiway Construction - Phase 1	702,990	-
Grant Receipts - Hangar Rehab & Painting Project	37,500	-
Grant Receipts - Master Plan Update	-	18,000
Sale of Equipment	-	176
Interest Expense	(2,376)	(2,657)
Loan Payments	(14,248)	(13,968)
Grant Expenses - Parallel Taxiway Design Project	(22,249)	(43,258)
Grant Expenses - Parallel Taxiway Construction - Phase 1	(850,158)	-
Grant Expenses - Hangar Rehab & Painting Project	(81,865)	-
Equipment Purchases	-	(3,570)
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ (204,668)</u>	<u>\$ 30,865</u>
CHANGES IN CASH BALANCE	\$ (121,544)	\$ 97,329
CASH BALANCE - BEGINNING OF YEAR	<u>202,571</u>	<u>105,242</u>
CASH BALANCE - END OF YEAR	<u>\$ 81,027</u>	<u>\$ 202,571</u>
CASH BASIS FUND BALANCE:		
Restricted for:		
Capital Reserve Fund	\$ 15,175	\$ 50,424
Unrestricted	<u>65,852</u>	<u>152,147</u>
TOTAL CASH BASIS FUND BALANCE	<u>\$ 81,027</u>	<u>\$ 202,571</u>

See accompanying notes to financial statements

CHEROKEE AVIATION AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cherokee Aviation Authority was formed in 2003 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Authority is to develop, operate and maintain an airport and hangars in Cherokee County on behalf of the units of government which are members of the Authority.

The governing body of the Authority is a Board of Directors. The City of Cherokee appoints two Board members who shall be residents of the City of Cherokee, Iowa; and Cherokee County appoints two Board members who shall be residents of the unincorporated territory of Cherokee County, Iowa. One member of the Board shall be a resident of the unincorporated territory of Cherokee County and selected by the Cherokee Aviation Authority Board with approval by the County Board of Supervisors and the Cherokee City Council. Each member of the Board has one vote.

REPORTING ENTITY - For financial reporting purposes, Cherokee Aviation Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

BASIS OF PRESENTATION – The accounts of the Authority are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

BASIS OF ACCOUNTING – The Authority maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Authority are

CHEROKEE AVIATION AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
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prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Authority in accordance with U.S. generally accepted accounting principles.

RESTRICTED FUNDS – Restricted funds are set aside for payment of future capital improvements. The amended agreement with the City of Cherokee and Cherokee County requires 40% of the tax levy to be put in a capital reserve fund. The original agreement required 60%, but this was amended to 40% per a September 14, 2004 agreement for a two-year period. As of March 2007, this amendment was effective for the life of the 28E Agreement. As of June 30, 2020 and 2019, part of the restricted funds has been used to pay for grant project expenses.

USE OF ESTIMATES – The Authority uses estimates and assumptions in preparing these financial statements in accordance with the cash basis of accounting. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

DATE OF MANAGEMENT'S REVIEW – Management has evaluated subsequent events through May 21, 2021, the date which the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS:

The Authority's deposits in banks at June 30, 2020 and 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2020 and 2019, the Authority had certificates of deposit.

CHEROKEE AVIATION AUTHORITY
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NOTE 3 – RISK MANAGEMENT:

The Authority is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 779 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Authority's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Authority's contributions to the Pool for the years ended June 30, 2020 and 2019 were \$7,496 and \$6,456, respectively.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Authority's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through

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reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Authority's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Authority's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Authority also carries commercial insurance purchased from other insurers for coverage associated with airport owners and operators general liability in the amount of \$1,500,000, pollution liability on underground tanks in the amount of \$1,000,000, and an employee blanket crime bond in the amount of \$50,000. The Authority assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 4 – AIRPORT OPERATOR CONTRACT:

The Authority has entered into a contract with a manager for the operation of the airport. Under the contract, the contractor is to operate the airport site in compliance with all applicable laws, rules and regulations. The contractor is to furnish all labor, tools and equipment necessary for operation. For these services, the operator was paid \$39,846 and \$40,283 during the years ended June 30, 2020 and 2019, respectively, plus commissions based on fuel sales of \$11,444 and \$9,193, respectively. The operator resigned on May 15, 2020. The new operator started on May 13, 2020 and was paid \$6,228 for services during the year ended June 30, 2020, plus commissions based on fuel sales of \$129.

CHEROKEE AVIATION AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
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NOTE 5 – RELATED PARTIES:

The clerk is employed at State Savings Bank where the Authority has bank accounts and certificates of deposits. The clerk was paid \$4,200 and \$3,790 during the years ended June 30, 2020 and 2019, respectively.

Brian Lauck, Airport Director and owner of Lauck Aviation, purchased fuel from the Authority of \$611 and \$1,866 for the years ended June 30, 2020 and 2019, respectively. The Airport Director's unpaid balance for fuel purchases and telephone reimbursements is \$-0- and \$150 at June 30, 2020 and 2019, respectively.

The City of Cherokee is a member of the 28E agreement with the Authority. The Authority paid the City for a lease of \$150 and insurance premiums of \$7,496 for the year ended June 30, 2020. The Authority paid the City for a lease of \$150 and insurance premiums of \$6,456 for the year ended June 30, 2019.

NOTE 6 – RENT INCOME:

The Authority has a verbal operating lease on 72 acres of farm ground with an unrelated party. The lease agreement is negotiated annually with the annual payment being made in the fall. One stipulation is that the tenant is required to plant low crop. The cost of this land is recorded by the City of Cherokee, since they own the land.

Land rental income resulted in income of \$8,500 and \$8,500, for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 – LEASES:

On February 1, 2014, the Authority renewed leased property from the City of Cherokee, Iowa under a ten-year operating lease. Rent payments at June 30, 2020 and 2019 are \$150 and \$150, respectively.

Future minimum lease payments required under the operating leases for the year ended June 30, 2020 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>AMOUNT</u>
2021	\$ 150
2022	150
2023	150
Thereafter	-
TOTAL MINIMUM LEASE PAYMENTS	\$ 450

CHEROKEE AVIATION AUTHORITY
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NOTE 8 – LONG TERM DEBT:

Long term debt at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Loan #2017-1: 2.0% note payable with ILEC, semi-annual installments of \$8,312 including interest made semi-annually until maturity on March 24, 2027, collateralized by an unconditional guaranty issued by the City of Cherokee.	\$ 108,091	\$ 122,340
LESS – Current Portion	<u>(14,535)</u>	<u>(14,249)</u>
NET LONG TERM DEBT	<u>\$ 93,556</u>	<u>\$ 108,091</u>

The following is a schedule, for each of the next five years and thereafter, of payments of debt service to be made concerning long term debt at June 30, 2020.

<u>YEAR ENDED JUNE 30,</u>	<u>AMOUNT</u>
2021	\$ 14,535
2022	14,828
2023	15,125
2024	15,429
2025	15,740
Thereafter	<u>32,434</u>
TOTAL PRINCIPAL PAYMENTS	<u>\$ 108,091</u>

NOTE 9 – COMMITMENT:

The Authority signed contracts for \$96,030 in June 2018 for the Parallel Taxiway Design Project; later amended to \$110,434 in October 2019. The project had costs of \$22,249 and \$43,258 at June 30, 2020 and 2019. The maximum reimbursement from the Federal Aviation Administration will be 90% of the allowable project costs, up to an amount of \$99,391. There is no remaining commitment at June 30, 2020.

The Authority signed a grant agreement for \$75,000 in September 2018 for the Hangar Rehabilitation and Painting Project. The project started in June 2019. The project had costs of \$81,865 at June 30, 2020. The maximum reimbursement from the Iowa Department of Transportation will be 50% of the allowable project costs, up to an estimated amount of \$37,500. There is no remaining commitment at June 30, 2020.

CHEROKEE AVIATION AUTHORITY
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The Authority signed a grant agreement for \$859,774 in July 2019 for the Partial Parallel Taxiway Construction Project; later amended to \$857,658 in May 2020. The project had costs of \$850,158 at June 30, 2020. The maximum reimbursement from the Federal Aviation Administration will be 90% of the allowable project costs, up to an estimated amount of \$771,892. There is a remaining commitment of \$7,500 at June 30, 2020.

NOTE 10 – SUBSEQUENT EVENTS:

The Authority signed a grant agreement for \$70,500 in September 2020 for the Partial Parallel Taxiway Lighting Project. The maximum reimbursement from the Federal Aviation Administration will be 90% of the allowable project costs, up to an estimated amount of \$63,450.

The Authority received a grant agreement for \$45,000 in August 2020 for the Lundell Hangar Door Replacement Project. The maximum reimbursement from the Iowa Department of Transportation will be 50% of the allowable project costs, up to an estimated amount of \$22,500.

The Authority received \$30,000 from the CARES Act grant in July 2020. The grant can be used for general operation expenses at the airport.

SUPPLEMENTARY INFORMATION

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2020

<u>GRANTOR/PROGRAM</u>	<u>CFDA #</u>	<u>PASS- THROUGH ENTITY IDENTIFYING #</u>	<u>PROGRAM EXPENDITURES</u>
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	FY20	\$ 872,407
TOTAL PROGRAM EXPENDITURES			\$ 872,407

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Cherokee Aviation Authority under programs of the federal Revigovernment for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in financial position or cash flows of the Authority.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – Cherokee Aviation Authority has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditors' report.

BURKHARDT & DAWSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of Cherokee Aviation Authority

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of Cherokee Aviation Authority as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, and have issued our report thereon dated May 21, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered Cherokee Aviation Authority's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Cherokee Aviation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee Aviation Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a

deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Cherokee Aviation Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-20 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee Aviation Authority's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Authority's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Authority. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cherokee Aviation Authority's Responses to Findings

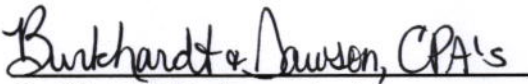
Cherokee Aviation Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Cherokee Aviation Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Aviation Authority during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURKHARDT & DAWSON, CPA's


Certified Public Accountants

Cherokee, Iowa
May 21, 2021

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of Cherokee Aviation Authority

Report on Compliance for Each Major Federal Program

We have audited Cherokee Aviation Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB*) *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2020. Cherokee Aviation Authority's major federal program is identified in Part I of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cherokee Aviation Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence

about Cherokee Aviation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Cherokee Aviation Authority's compliance.

Opinion on the Major Federal Program

In our opinion, Cherokee Aviation Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of Cherokee Aviation Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cherokee Aviation Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cherokee Aviation Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item III-A-20 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Cherokee Aviation Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BURKHARDT & DAWSON, CPA's


Certified Public Accountants

Cherokee, Iowa
May 21, 2021

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2020

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) Unmodified opinions were issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was the Department of Transportation:
 - CFDA Number 20.106 – Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Cherokee Aviation Authority did not qualify as a low-risk auditee.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2020

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INTERNAL CONTROL DEFICIENCIES:

II-A-20 SEGREGATION OF DUTIES

Criteria – The Authority is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same individual. This segregation of duties helps prevent losses from individual error or dishonesty and maximizes the accuracy of the Authority's financial statements.

Condition - Generally, one individual in the Authority has control over charge accounts, including billing, deposit preparation, posting transactions to accounting records, reconciling payments to accounts receivable records, grant reimbursement requests and grant contracts recording and reconciling.

Cause – The Authority has a limited number of staff and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Authority's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by staff in the normal course of performing their assigned functions.

Recommendation – The Authority should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff or designate a member of the Board to provide additional control through review of financial and grant transactions to help ensure accounts receivable charges and payments on account are properly recorded and deposited intact, and also to ensure grant reimbursement requests and subsequent receipts are properly recorded and deposited.

Response and Corrective Action Planned - The Authority has designated a member of the Board (elected Secretary) to reconcile the deposit account statements on a monthly basis. During each monthly meeting, the board members review and approve the financial reports, accounts payable, accounts receivable, all checks and deposit activity in the checking account, the fuel report

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2020

expenses and reimbursements for each open grant project. Grant reimbursement requests are signed by an Authority member. Checks to pay bills are written by the Clerk but signed by an authorized member of the Authority.

Conclusion – Response Accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2020

PART III: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 20.106: Airport Improvement Program

Federal Award Year: 2020

Prior Year Finding Number: NA

Department of Transportation

III-A-20 SEGREGATION OF DUTIES OVER FEDERAL REVENUES – The Authority
(2020) Clerk did not properly segregate custody, record-keeping and reconciling
functions for revenues, including those related to federal programs. See item II-
A-20.

CHEROKEE AVIATION AUTHORITY
CHEROKEE, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2020

PART IV: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- A. QUESTIONABLE DISBURSEMENTS – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- B. TRAVEL EXPENSES – No disbursements of Authority money for travel expenses of Authority officials were noted.
- C. AUTHORITY MINUTES – No transactions were found that we believe should have been approved in the Authority minutes but were not. However, the minutes, including the schedule of bills allowed, were not published as required by Chapter 28E.6(3) of the Code of Iowa.

Recommendation - The Authority should ensure the minutes, including the schedule of bills allowed, are published as required.

Response – We do not publish the minutes in a newspaper because of the cost. The minutes are available for viewing at the Cherokee City Hall and are published on the City's website.

Conclusion – Response accepted

- D. DEPOSITS AND INVESTMENTS – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Authority's investment policy were noted.